

Message Text

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FOR C. MEISSNER, EB/IFD

E.O. 11652: N/A

TAGS: UNCTAD, EFIN

SUBJECT: INTER-GOVERNMENTAL GROUP OF EXPERTS ON INFLATION:
SUMMARY OF DISCUSSIONS JULY 24-28.

1. THE MEETING CONVENED ON JULY 24 WITH THE ELECTION OF OFFICERS. URRUTIA, EX-MINISTER OF ENERGY OF COLOMBIA ELECTED CHAIRMAN AND NYGINSKY, SENIOR OFFICIAL MINFIN OF POLAND ELECTED VICE-CHAIRMAN. AFTER SOME ARM-TWISTING, FRICKWEART (FINMIN, NETHERLANDS) SELECTED BY GROUP B AS RAPPORTEUR. COMMENT: ARSENIS, UNCTAD DIRECTOR, SUGGESTED US EXPERT (LEIPZIGER) SERVE AS RAPPORTEUR; HOWEVER, US DEL DECLINED IN ORDER TO ALLOW MAXIMUM FLEXIBILITY TO PARTICIPATE IN DISCUSSIONS. END COMMENT. VOLUMINOUS DOCS AND ANALYTIC PAPERS DISTRIBUTED TO GROUP TO GUIDE THEIR DISCUSSIONS. DETAILED AGENDA BEING POUCHED TO MILAM.

2. ON JULY 25 (AM), ARSENIS PRESENTED SECRETARIAT VIEWS ON RECENT TRENDS IN INFLATION, DRAWING UPON 1975 INFLATION UNCLASSIFIED

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GROUP DOCS, STRESSING ASSYMMETRIC PRICE BEHAVIOR WHICH FAVORS MANUFACTURES AT EXPENSE OF PRIMARY COMMODITIES AND GENERAL ACCELERATION OF INFLATION SINCE 1969. HE CONCLUDED THAT PRICE INSTABILITY IS NET INFLATIONARY AND THAT THIS ISSUE REQUIRES FURTHER EXAMINATION. FRG EXPERT ARGUED THAT WORLD INFLATION SITUATION HAS CHANGED SINCE 1975 (NAMELY INFLATION RATES HAVE FALLEN). INDIAN EXPERT REQUESTED

DISAGGREGATION OF SECRETARIAT INFLATION DATA ON LDCS. US EXPERT EXPRESSED CONCERNS ABOUT SECRETARIAT BACKGROUND DOC ON RECENT ECONOMIC INDICATORS; IN PARTICULAR, HE WISHED TO SEE (1) RECOGNITION OF ROLE OF OIL PRICES IN 1974-75 PRICE INDEX DATA; (2) FURTHER STATS ON LDC INFLATION; (3) RECOGNITION OF UNIT VALUE PROBLEM IN T/T INDICES; AND (4) ADDITION OF MONEY SUPPLY STATS FOR LDCS TO ACCOMPANY CPI DATA. IRAN AND VENEZUELA DISPUTED ROLE OF OIL PRICE INCREASE AS MAJOR ISSUE. ITALY ARGUED THAT OIL PRICES INFLATIONARY THROUGH PAYMENTS IMBALANCES CUM DEPRECIATION MECHANISM AS WELL.

3. FRENCH-ALGERIAN DEBATE ON LDC PERFORMANCE PROMPTED CUBAN INTERVENTION DECRYING DEBATING SOCIETY DEVELOPMENTS. US WONDERED WHETHER EXAMINATION OF INFLATION IN ISOLATION WAS USEFUL OR WHETHER GROWTH SHOULD BE EXAMINED, SINCE REGARDLESS OF RECENT VIEWS ON PHILLIPS CURVE, POLICY MAKERS FACED IMPLICIT GROWTH-INFLATION TRADEOFFS AND TRANSMISSION MECHANISMS OF GROWTH WERE ALSO RELEVANT TO MACROECONOMIC PICTURE. THIS VIEW WAS SUPPORTED BY ITALIAN EXPERT (PROF. IZZO). USSR SAW NO NEED FOR ANALYTIC DISCUSSION AND SUGGESTED PROMPT MOVEMENT TO RECOMMENDATIONS. JAPAN WONDERED OUT LOUD WHY REAMS OF DOCS ONLY AVAILABLE ON DAY OF CONFERENCE AND IN UNHELPFUL INTERVENTION URGED DISCUSSION OF LDC PROBLEMS AND STUDY OF HOW TO SOLVE THEM. ARSENIS ACCEPTED TECHNICAL POINTS FROM US, PROMISED ADDITIONAL DATA FOR FINAL REPORT, UNCLASSIFIED

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AND SUPPORTED VIEW THAT GROWTH MATTERS. IN FACT, HE MUSED THAT JAP AND FRG HAD ACCEPTABLE INFLATION RATES DUE TO SLOWER GROWTH AND THAT LDC MAY LOSE MORE FROM DEFLATIONARY POLICIES. HE WONDERED WHAT WOULD HAVE OCCURRED HAD THE US NOT PURSUED EXPANSIONARY POLICIES.

4. ON JULY 25 (PM), ARSENIS OPENED DISCUSSION WITH LENGTHY SUMMARY OF DOMESTIC CAUSES OF INFLATION, CONCENTRATING ON DCS SINCE "THEY DETERMINE INTERNATIONAL PRICES." DISCUSSION FOLLOWED 1975 REPORT EXCEPT HE TOOK EXCEPTION WITH KRUEGER REPORT FROM MAY 78 EXPERTS MEETING IN WHICH PROF KRUEGER (MINNESOTA) CONCLUDED THAT INFLATION HAD REDUCED REAL DEBT BURDEN OF LDCS. ARSENIS ARGUED THAT LDCS LOSE IN UPSWING DUE TO ACCELERATING PRICES OF MAN. IMPORTS AND LOSE IN DOWNSWING DUE TO REDUCED EXPORT VOLUMES. US ARGUED THAT SECRETARIAT IGNORED DOMESTICALLY GENERATED INFLATION IN LDCS (PRICES OF NON-TRADED GOODS IN CONSUMER BASKET) AND URGED A BALANCED EXAMINATION OF ALL SOURCES OF INFLATION, INCLUDING DOMESTIC LDC MONETARY PHENOMENA. ON DEBT, US SUPPORTED KRUEGER FINDING THAT REAL DEBT OBLIGATIONS REDUCED BY INFLATION AND THAT SECRETARIAT WAS ARGUING ABOUT CAPACITY TO REPAY REDUCED DEBT. IN FINAL COMMENT, US URGED BALANCE IN

ANALYSIS--FOR EXAMPLE, EXPORT VOLUMES INCREASE IN UPSWING OF CYCLE AS WELL AND THEREFORE PICTURE IS NOT AS ONE-SIDED AS SECRETARIAT INDICATED.

5. JULY 26 (AM) DEBATE CENTERED ON DOMESTIC SOURCES OF INFLATION WITH SECRETARIAT CONCENTRATING ON DEVELOPED MARKET ECONOMIES AND SOME EXPERTS (INCLUDING ITALY, US, SWISS) URGING A BALANCED VIEW OF DOMESTIC SOURCES IN LDCS AND DCS. SWISS EXPERT STRESSED GLOBAL CORRECTIONS TO LOWER INFLATION, USEFULNESS OF TRADE TO LOWER PRICES, RIGIDITIES WHICH PERSIST, AND TRADE-OFF BETWEEN GROWTH AND INFLATION. ITALIAN DEL NOTED ROLE OF DIFFERENTIAL GROWTH RATES IN STIMULATING INFLATION IN COUNTRIES WITH DEPRECIATING CURRENCIES. GHANA

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FOR C. MEISSNER, EB/IFD

AND NIGERIA INTERVENED ON BEHALF OF VIEW THAT LDC INFLATION EXTERNALLY CAUSED AND ALGERIA AND CUBA URGED RAPID MOVE BY GROUP TO RECOMMENDATIONS. ALGERIAN MENTIONED DC PROTECTIONISM, DC CURRENCY PROBLEMS, DECLINING LDC T/T, AND COMMODITY PRICE INSTABILITY.

6. JULY 26 (PM) DEBATE OPENED WITH SECRETARIAT SYNOPSIS OF ECONOMETRIC MODEL OF INFLATION TRANSMISSION UNDER AGENDA ITEM 4(B). CONCLUSIONS WERE THAT UPSWING IN CYCLE CAUSES COMMODITY PRICES TO RISE (AFFECTING MAN. GOODS PRICES) BUT ASYMMETRY PERSISTS SO THAT COMMODITY PRICE DECLINES IN DOWNTURN NOT EQUALLY REFLECTED IN MAN. GOODS PRICES, THUS RAT-

CHETING INFLATION INTO SYSTEM. POLICY CONCLUSION WAS THAT STABILIZATION OF RAW MATERIALS PRICES WOULD BE COUNTERINFLATIONARY OVERALL. IN THIS SOMEWHAT ACADEMIC DEBATE, USDEL NOTED THAT RAW MATERIALS PRICE INSTABILITY IN MODEL EXERTED MARGINAL IMPACT ON OVERALL DC PRICE LEVEL. UNDER QUESTIONING FROM DEVELOPED COUNTRY DELS, SECRETARIAT STATED THAT RATE OF GROWTH OF DEMAND WAS MOST POWERFUL INFLUENCE ON LDC

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T/T, THAT AS USDEL'S DATA HAD SHOWN LDC INCREASES IN MANUFACTURES MADE DICHOTOMY BETWEEN LDC COMMODITY EXPORTERS AND DC MANUFACTURES EXPORTERS LESS CLEAR. THEREFORE COMMODITY MANUFACTURES T/T WERE NOT SAME AS LDC-DC T/T.

7. JULY 27 (AM) DEBATE CONCERNED INTERNATIONAL MARKETS AND SPREAD OF INFLATION. WITH ARSENIS (UNCTAD) CONCENTRATING ON ROLE OF RESERVE CURRENCIES IN WORLD INFLATION EXCHANGE RATE VARIABILITY, INCREASING USE OF PROTECTIONISM IN DCS TO ASSIST BOP ADJUSTMENT, AND DISADVANTAGEOUS POSITION OF LDCS IN THE SYSTEM. HE URGED EXAMINATION AND POSSIBLE RECOMMENDATIONS ON THE FOLLOWING ISSUES: (1) IS PRESENT MONETARY SYSTEM SATISFACTORY? IS IT FACILITATING FIGHT ON INFLATION OR ARE OTHER MEASURES ON EXCHANGE RATES AND "CREATION AND DISTRIBUTION OF INTERNATIONAL LIQUIDITY ADVISABLE" AND (2) IS PROTECTIONISM INCREASING IN DCS? IF SO, SHOULD LDCS ANTICIPATE THAT THERE WILL BE CHANGING TRADE RELATIONSHIPS BASED ON GATT AGREEMENT OR ON AN ENTIRELY NEW SYSTEM? TO THIS CALL TO ARMS, THE USSR EXPERT (MKT. RESEARCH INSTITUTE, TRADE MIN) ADDED SOME TRADITIONAL AS WELL AS SOME PECULIAR POINTS, THE LATTER OF WHICH INCLUDED (1) THE CAUSE OF INFLATION WAS PRINTING OF TOO MUCH PAPER MONEY WHICH HAVE NO VALUE IN MARKET ECONOMIES; (2) GROUP SHOULD EXAMINE DATA ON M1 AND M2; (3) INFLATION AIDED BY INDISCRIMINANT CREDIT GIVEN BY EURO-CURRENCY MKT, IMF AND IBRD.

8. USDEL URGED EXAMINATION OF MONEY SUPPLY DATA IN DCS AND LDCS AS POSSIBLE SOURCE OF INFLATION, BUT REMINDED USSR DEL THAT INTERNATIONAL CREDIT NEEDED BY LDCS (AS CAPITAL IMPORTERS). US ALSO ARGUED THAT FOR FREELY CONVERTIBLE CURRENCIES PRICES ARE DETERMINED IN MARKETPLACE, SO THAT CURRENCY MUST HAVE VALUE TO THE PURCHASER EQUAL TO ITS PRICE. IN RESPONSE TO SECRETARIAT'S PRESENTATION, USDEL ADDED, INTER ALIA, FOL-

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LOWING REMARKS: (1) ONE MUST LOOK PAST FIXED RATE PERIOD VIS-A-VIS INFLATION AND CURRENT ISSUE IS THAT EXCHANGE RATE

CHANGES REFLECT DIFFERENTIAL GROWTH RATES; (2) LDC HAVE ADAPTED SOMEWHAT TO FLEXIBLE RATES THROUGH PEGGING TO BASKETS; AND (3) PROTECTIONISM IS TWO-WAY STREET WITH US POSITIONS CLEARLY KNOWN THROUGH EFFORTS IN MTN AND STATEMENTS IN OECD AND SUMMIT, BUT PROBLEM IS HOW TO CREATE MARKETS FOR NEW LDC MANUFACTURES WITHOUT RECIPROCAL ACCESS FOR DC PRODUCTS.

9. VARIOUS DELEGATES (INCLUDING FRENCH AND EEC) TRIED TO REFOCUS DEBATE AWAY FROM PROTECTIONISM AND OTHERS (HUNGARY, SWITZERLAND) TRIED TO FOCUS ON INFLATIONARY ASPECTS OF PROTECTIONISM PER SE. FRENCH BLAMED OIL PRODUCERS FOR INFLATION, CUBANS BLAMED THE DCS, ITALY BLAMED IT ON SLOW GROWTH BY SOME CAUSING INFLATIONARY DEPRECIATIONS, UK BLAMED INDUSTRIAL, STRUCTURAL PROBLEMS AT LEAST IN BRITISH CONTEXT, INDIA AND NIGERIA BLAMED FLEXIBLE RATES AND SO IT WENT.

10. ON JULY 28, DISCUSSION SHIFTED TO THE NEXT AGENDA ITEM ON TRANSMISSION MECHANISMS OF INFLATION (REALLY COVERED ON PREVIOUS DAY). SECRETARIAT PRESENTATION, WHICH BEGINS DEBATE, FOCUSED ON GROWTH IMPLICATIONS OF EXCESSIVELY ANTI-INFLATIONARY POLICY AND INTERDEPENDENCE ISSUES. SURPLUS COUNTRIES' RELUCTANCE TO REFLATE WAS REGRETTED. POSITION WAS SUPPORTED BY UK AND ITALY. FRENCH AND GERMANS STOOD BY INTENT OF BONN SUMMIT. URRUTIA (COLOMBIA) URGED REFLATION VIA INVESTMENT IN LDCS. ARSENIS URGED CONSIDERATION OF MASSIVE TRANSFERS TO LDCS TO RESTORE PURCHASING POWER. US EXPERT NOTED THIS WAS RAISED AT UN COW AND THAT MANY ANALYTIC PROBLEMS EXISTED. DETAILS GIVEN ON BASIS OF EB STAFF WORK AND US POSITION AT COW.

11. FRENCH AND EEC COMMISSION REPS SUPPORTED INCREASED PRIVATE INVESTMENT FLOWS COUNTERCYCLICALLY, BUT SECRETARIAT, WORRIED ABOUT DEBT LIMITS, OFFERED TRANSFER IDEA FINANCED UNCLASSIFIED

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FOR C. MEISSNER, EF/IFD

SUCH A PLAN IS OLD IDEA WITH NEW COUNTER-CYCLICAL RATIONALE AND THAT IT IS NOT WORKABLE AS SHORT-TERM COUNTERCYCLICAL DEVICE AND WOULD PERHAPS NOT BE ADDITIONAL, NOR AIMED AT DCS WITH EXCESS CAPACITY. FURTHERMORE LINKAGE IMPLIED BETWEEN DC AND LDC GROWTH IS FOR RICH LDCS NOT MERITING CONCESSIONAL TRANSFERS. WIDE-RANGING DISCUSSION FOLLOWED WITH ARSENIS AND URRUTIA INTERESTED IN OECD EXPANSIONARY PACKAGE HELPFUL TO LDCS. FRENCH SYMPATHETIC BUT THOUGHT IT WAS WRONG FORUM. SEVERAL DELS MENTIONED COW INTEREST BUT SECRETARIAT INSISTED IT WAS A PROPER UNCTAD CONCERN.

12. DRAFTS ARE TO BE PREPARED BY SECRETARIAT ON EACH AGENDA ITEM TO FORM THE BASIS OF THE REPORT. SORENSON

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